



# United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET  
Washington, DC 20240

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## Memorandum

To: Bureau Chief Financial Officers  
Bureau Environmental Contacts

From: Willie R. Taylor  
Director, Office of Environmental Policy and Compliance

Daniel L. Fletcher  
Director, Office of Financial Management

Subject: Inflation Factors for Environmental and Disposal Liabilities

In accordance with current Departmental guidance, environmental cleanup cost estimates are updated so that the Department's financial statements fairly present environmental and disposal liabilities. Since future cleanup costs generally cannot be known with certainty, the exercise of judgment is required in developing reasonable estimates. Cost estimates change as technology develops, laws change, new events occur, more experience is acquired, or additional information is obtained. At least annually, or when there is a material change in the status of the site, cost estimates should be reviewed and adjusted, as appropriate. If no new site information is available that would necessitate revising the cost estimate, it generally would still be appropriate to use that estimate, adjusted for work completed and projected inflation (for each year beyond the date the estimate was generated).

Inflation cost factors are calculated in various ways using different base indices, but a factor based on the Gross National Product (GNP) using implicit price deflators is preferable for the Department's EDL cost estimating purposes. The GNP takes into consideration a wide variety of prices, ranging from fighter bombers purchased by the Department of Defense to paper clips used in common offices. Inflation factors derived from the GNP implicit price deflators are used by the State of Arkansas Department of Environmental Quality (ADEQ) to adjust environmental cleanup cost-to-complete estimates when there is no new information that would require the estimate to be recalculated. ADEQ references the Federal Reserve Bank of St. Louis as the source of the implicit price deflators and publishes inflation factors for their environmental managers to use annually at

[http://www.adeq.state.ar.us/hazwaste/branch\\_programs/rcra\\_financial\\_assurance.htm](http://www.adeq.state.ar.us/hazwaste/branch_programs/rcra_financial_assurance.htm)

Attachment 1 lists the inflation factors obtained from the ADEQ web link. It is recommended that bureau personnel responsible for adjusting EDL cost estimates for inflation apply these inflation factors. On a quarterly and annual basis, bureau personnel enter, review, and approve

their EDL information in the Department's Environmental Database. The new inflation factor is changed in the database each year so that personnel can apply the factor to sites that have not had a change in their cost estimates. For estimates neither developed nor modified in the current fiscal year, adjustments for inflation should be applied during the last quarter of the fiscal year. Note that the inflation factors are cumulative and would be applied for each year from the year the cost estimate was developed (or last updated) to the current year. Also, the inflation factors are intended for general application rather than as a substitute for considering increased real costs (beyond inflation) of specific materials required in significant quantities at a particular site.

If you have any questions, please contact Emily Joseph, OEPC, at (202) 208-5303 or Susan Perry, PFM, at (202) 208-4426.

**Attachment 1**

<b>ADEQ State of Arkansas Department of Environmental Quality Implicit Price Deflator Based on U.S. Gross National Product (Updated March 31 of each year)</b>	
<b>Year</b>	<b>Inflation Factor</b>
1998	1.93%
1999	1.24%
2000	1.53%
2001	2.06%
2002	2.17%
2003	1.30%
2004	1.673%
2005	2.367%
2006	3.03%
2007	2.935%
2008	3.946%
2009	2.18%